

NEWS RELEASE

FOR RELEASE \_\_\_\_\_

Cline, DeVries & Allen, LLP today released an audit report on the City of Jefferson, Iowa.

The City and its component unit receipts totaled \$5,072,598 for the year ended June 30, 2005, a thirteen percent increase from 2004. The receipts included \$1,535,837 in property tax, \$206,592 from tax increment financing collections, \$2,574,811 from charges for service, \$106,228 from operating grants, contributions and restricted interest, \$478,602 from capital grants, contributions and restricted interest, \$25,796 from unrestricted investment earnings and \$144,732, from other general receipts.

Disbursements for the year totaled \$8,223,208, a less than one percent decrease from the prior year, and included \$2,344,771 for capital projects, \$803,456 for culture and recreation, and \$1,700,641 for debt service. Also, disbursements for business type activities totaled \$1,598,335.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.



CITY OF JEFFERSON

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2005



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City of Jefferson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Todd Madson	Mayor	Jan 2008
Larry Teeple	Council Member	Jan 2006
Nancy Teusch	Council Member	Jan 2006
Bill Figenshaw	Council Member	Jan 2006
Craig Hertel	Council Member	Jan 2008
Randy Bunkers	Council Member	Jan 2008
Diane Kennedy	Clerk	Jan 2006
Douglas McDermott	Treasurer	Jan 2006
Robert A. Schwarzkopf	Attorney	Jan 2006

City of Jefferson

# CLINE, DEVRIES & ALLEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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Clive, Iowa 50325  
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### Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Jefferson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated August 5, 2005 on our consideration of the City of Jefferson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 25-27 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jefferson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 5, 2005  
Ames, Iowa

City of Jefferson

## Basic Financial Statements

City of Jefferson

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
<b>Governmental activities:</b>				
Public safety	\$ 489,929	23,519	26,547	-
Public works	440,591	515,183	40,614	181,530
Culture and recreation	803,456	343,089	26,492	-
Community and economic development	410,310	-	12,575	297,072
Health and social services	8,492	-	-	-
General government	391,135	-	-	-
Debt service	1,700,641	-	-	-
Capital projects	2,344,771	-	-	-
<b>Total governmental activities</b>	<b>6,589,325</b>	<b>881,791</b>	<b>106,228</b>	<b>478,602</b>
<b>Business type activities:</b>				
Water	652,429	691,163	-	-
Sewer	606,302	523,036	-	-
Sanitation	339,604	466,110	-	-
<b>Total business type activities</b>	<b>1,598,335</b>	<b>1,680,309</b>	<b>-</b>	<b>-</b>
<b>Component Unit:</b>				
Airport	35,548	12,711	-	-
<b>Total</b>	<b>\$ 8,223,208</b>	<b>2,574,811</b>	<b>106,228</b>	<b>478,602</b>
<b>General Receipts:</b>				
<b>Property tax levied for:</b>				
General purposes				
Tax increment financing				
Debt service				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond/Note proceeds, net				
Miscellaneous				
Sale of assets				
Franchise taxes				
Rent				
Transfers				
<b>Total general receipts and transfers</b>				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
<b>Restricted:</b>				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
<b>Unrestricted</b>				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total Primary Government	Major Discretely Presented Component Unit
(439,863)	-	(439,863)	-
296,736	-	296,736	-
(433,875)	-	(433,875)	-
(100,663)	-	(100,663)	-
(8,492)	-	(8,492)	-
(391,135)	-	(391,135)	-
(1,700,641)	-	(1,700,641)	-
(2,344,771)	-	(2,344,771)	-
(5,122,704)	-	(5,122,704)	-
-	38,734	38,734	-
-	(83,266)	(83,266)	-
-	126,506	126,506	-
-	81,974	81,974	-
-	-	-	(22,837)
(5,122,704)	81,974	(5,040,730)	(22,837)
1,149,270	-	1,149,270	-
206,592	-	206,592	-
386,567	-	386,567	-
30,436	-	30,436	-
100	-	100	-
9,059	16,737	25,796	-
2,206,733	-	2,206,733	-
33,777	-	33,777	-
-	-	-	-
31,328	-	31,328	-
5,036	-	5,036	44,055
467,500	(455,000)	12,500	(12,500)
4,526,398	(438,263)	4,088,135	31,555
(596,306)	(356,289)	(952,595)	8,718
3,246,699	1,870,056	5,116,755	24,799
\$ 2,650,393	1,513,767	4,164,160	33,517
\$ 239,096	-	239,096	-
446,101	-	446,101	-
137,488	951,537	1,089,025	-
587,070	-	587,070	-
1,240,638	562,230	1,802,868	33,517
\$ 2,650,393	1,513,767	4,164,160	33,517

City of Jefferson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Employee Benefits	Road Use Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 777,128	362,588	-	-
Tax increment financing collections	-	-	-	206,592
Other city tax	55,725	-	-	-
Licenses and permits	18,303	-	-	-
Use of money and property	13,506	-	-	-
Intergovernmental	26,124	-	384,633	-
Charges for service	340,448	-	-	-
Miscellaneous	36,390	-	300	500
Total receipts	1,267,624	362,588	384,933	207,092
Disbursements:				
Operating:				
Public safety	465,197	-	-	-
Public works	46,380	-	308,222	-
Culture and recreation	792,385	-	-	-
Community and economic development	96,864	-	-	7,858
Health and social services	-	-	-	-
General government	391,135	-	-	-
Debt service	-	-	-	181,394
Capital projects	-	-	-	-
Business type activities	-	-	-	-
Total disbursements	1,791,961	-	308,222	189,252
Excess (deficiency) of receipts over (under) disbursements	(524,337)	362,588	76,711	17,840
Other financing sources (uses):				
SRF loan proceeds (net of interest, discount)	-	-	-	-
General obligation bond proceeds, net	-	-	-	-
Sale of cemetery lots	7,000	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	1,121,803	-	-	-
Operating transfers out	(111,219)	(685,948)	(60,000)	-
Total other financing sources (uses)	1,017,584	(685,948)	(60,000)	-
Net change in cash balances	493,247	(323,360)	16,711	17,840
Cash balances beginning of year	581,737	323,360	222,385	428,261
Cash balances end of year	\$ 1,074,984	-	239,096	446,101
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	1,074,984	-	-	-
Special revenue funds	-	-	239,096	446,101
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,074,984	-	239,096	446,101

See notes to financial statements.

Debt Service	Capital Projects		Other	
General Obligation Bonds	Capital Improvements	Sewer Plant Construction	Nonmajor Governmental Funds	Total
386,567	-	-	9,554	1,535,837
-	-	-	-	206,592
-	-	-	-	55,725
-	-	-	-	18,303
-	-	-	590	14,096
-	181,530	-	323,303	915,590
-	-	-	117,287	457,735
-	17,736	-	52,983	107,909
386,567	199,266	-	503,717	3,311,787
-	-	-	24,732	489,929
-	-	-	85,989	440,591
-	-	-	11,071	803,456
-	-	-	305,588	410,310
-	-	-	8,492	8,492
-	-	-	-	391,135
1,519,247	-	-	-	1,700,641
-	834,457	1,318,667	191,647	2,344,771
-	-	-	-	-
1,519,247	834,457	1,318,667	627,519	6,589,325
(1,132,680)	(635,191)	(1,318,667)	(123,802)	(3,277,538)
-	-	1,091,728	-	1,091,728
1,115,005	-	-	-	1,115,005
-	-	-	-	7,000
-	-	-	-	-
42,405	-	227,000	134,219	1,525,427
-	(42,405)	-	(158,355)	(1,057,927)
1,157,410	(42,405)	1,318,728	(24,136)	2,681,233
24,730	(677,596)	61	(147,938)	(596,305)
112,758	1,019,268	-	558,929	3,246,698
137,488	341,672	61	410,991	2,650,393
137,488	-	-	-	137,488
-	-	-	-	1,074,984
-	-	-	438,514	1,123,711
-	341,672	61	(188,636)	153,097
-	-	-	161,113	161,113
137,488	341,672	61	410,991	2,650,393

City of Jefferson

## City of Jefferson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds			Total	Component	Total
	Water	Sewer	Sanitation		Unit - Airport	
Operating receipts:						
Use of money and property	\$ 7,804	8,933	-	16,737	44,055	60,792
Charges for service	674,023	499,558	465,169	1,638,750	-	1,638,750
Miscellaneous	17,140	23,478	941	41,559	12,711	54,270
Total operating receipts	<u>698,967</u>	<u>531,969</u>	<u>466,110</u>	<u>1,697,046</u>	<u>56,766</u>	<u>1,753,812</u>
Operating disbursements:						
Public works	-	-	-	-	35,548	35,548
Business type activities	652,429	606,302	339,604	1,598,335	-	1,598,335
Total operating disbursements	<u>652,429</u>	<u>606,302</u>	<u>339,604</u>	<u>1,598,335</u>	<u>35,548</u>	<u>1,633,883</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	46,538	(74,333)	126,506	98,711	21,218	119,929
Other financing sources (uses):						
Operating transfers in	286,707	514,734	-	801,441	-	801,441
Operating transfers out	(334,707)	(831,734)	(90,000)	(1,256,441)	(12,500)	(1,268,941)
Total other financing sources (uses)	<u>(48,000)</u>	<u>(317,000)</u>	<u>(90,000)</u>	<u>(455,000)</u>	<u>(12,500)</u>	<u>(467,500)</u>
Net change in cash balances	(1,462)	(391,333)	36,506	(356,289)	8,718	(347,571)
Cash balances beginning of year	412,964	1,105,851	351,241	1,870,056	24,799	1,894,855
Cash balances end of year	<u>\$ 411,502</u>	<u>714,518</u>	<u>387,747</u>	<u>1,513,767</u>	<u>33,517</u>	<u>1,547,284</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ 206,927	38,456	-	245,383	-	245,383
Unreserved	204,575	676,062	387,747	1,268,384	33,517	1,301,901
Total cash basis fund balances	<u>\$ 411,502</u>	<u>714,518</u>	<u>387,747</u>	<u>1,513,767</u>	<u>33,517</u>	<u>1,547,284</u>

See notes to financial statements.

City of Jefferson

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Jefferson is a political subdivision of the State of Iowa located in Greene County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Jefferson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Jefferson (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Jefferson Municipal Airport Commission is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Commission was established pursuant to Chapter 330 of the Code of Iowa to operate the City's airport facility. The Commission is composed of five members appointed by the Jefferson City Council.

The Commission's operating budget is subject to the approval of the Jefferson City Council. The Jefferson Municipal Airport is presented as an Enterprise Fund.

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### Jointly Governed Organizations

The City participates in a few jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Greene County Recycling Agency, the Entity Board, and the Jefferson Municipal Airport Commission.

City officials are also members of the Greene County Development Corporation (GCDC) Board. The City paid a total of \$75,000 to GCDC during the fiscal year ended June 30, 2005.

City officials are also members of the North Dallas County Landfill Commission. See Note 9 for disclosures.

### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits Fund is used to account for employee benefits financed by the levy for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Improvements Fund is used to accumulate resources for future projects within the City.

The Sewer Plant Construction Fund is used to finance the sewer plant construction improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for operation of the City's sanitation services.

The City also reports the following component unit:

The Airport Fund accounts for the operation of the Jefferson Municipal Airport.

#### C. Measurement Focus and Basis of Accounting

The City of Jefferson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a

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proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City and its component unit own approximately \$2,325 of par value cooperative stock, which was acquired by patronage dividend. The stock is not readily marketable, and can only be redeemed by the Coop. Therefore market value of the stock is not determinable. The stock is recorded on the books at \$2,325. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$327 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust and the Coop stock are unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 305,000	102,084	167,818	14,862	365,000	178,308	837,818
2007	315,000	91,409	173,317	8,077	376,000	168,782	864,317	268,268
2008	260,000	80,384	117,732	2,401	386,000	158,088	763,732	240,873
2009	265,000	71,806	-	-	397,000	146,308	662,000	218,114
2010	270,000	63,411	-	-	412,000	133,782	682,000	197,193
2011-2015	1,580,000	172,595	-	-	1,535,000	483,528	3,115,000	656,123
2016-2020	-	-	-	-	1,252,000	286,470	1,252,000	286,470
2021-2024	-	-	-	-	1,144,000	87,090	1,144,000	87,090
Total	\$ 2,995,000	581,689	458,867	25,340	5,867,000 *	1,642,356 *	9,320,867	2,249,385

\* Amount is based upon entire State Revolving loan being borrowed at fiscal year end. Only \$5,865,000 was actually outstanding as of June 30, 2005. The remaining \$2,000 is being held until all final documents are submitted by the City. The revenue bonds and notes totals also include the water revenue notes.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions.

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts within the Enterprise Funds for the sole purpose of making the bond and note principal and interest payments when due.
- (c) There shall be set apart and paid into the City's Water Revenue Debt Service Reserve Fund (the Reserve Fund) at the time of delivery the sum of \$182,000. Whenever the sum on deposit in the Reserve Fund has been reduced to less than the required balance, there shall be deposited into the Reserve Fund from the Net Revenues remaining, after first making the required deposits into the Operation and Maintenance Fund and the Sinking Fund, a sum equal to 25% of that month's total deposits into the Sinking Fund, until the sum on deposit in the Reserve Fund has been restored to the Required Reserve Fund Balance. All money credited to the Reserve Fund shall be used and is hereby pledged for the payment of principal and interest on the Series 2003 Bonds and any Parity Obligations whenever the Sinking Fund balance is insufficient.

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The City is not in compliance with the provisions of the 2003 Sewer Revenue Bond Resolution.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For firefighters, the percentages are 9.35% and 17%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$85,207, \$69,949 and \$70,037, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 44,890

This liability has been computed based on rates of pay in effect at June 30, 2005. Sick leave is payable when used. It is not paid upon termination, retirement, or death.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Capital Projects:		
Sewer Plant Construction	Enterprise:	
	Sewer	\$ 227,000
Water System Improvements	Water	3,000
Airport Improvements	Component Unit:	
	Airport	12,500
		<u>242,500</u>
Debt Service	Capital Project:	
	Capital Improvements	<u>42,405</u>
Special Revenue:		
Downpayment Assistance	General	6,000
Health Insurance Sinking	General	3,500
Fareway TIF	General	88,619
Cemetery Land Reserve	General	8,000
Cafeteria Plan	General	5,100
Equipment Replacement	Special Revenue:	
	Recycling	<u>7,500</u>
		<u>118,719</u>
General	Special Revenue:	
	Equipment Replacement	110,855
General	Road Use Tax	60,000
General	Employee Benefits	685,948
General	Recycling	40,000
General	Enterprise:	
	Water	45,000
	Sewer	90,000
	Sanitation	90,000
		<u>1,121,803</u>
Total		<u><u>1,525,427</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Bell Tower Community Foundation

The City entered into an agreement with the Bell Tower Community Foundation on April 15, 1994 to loan them up to \$35,000. During the fiscal years ended June 30, 1993 and 1994, the City loaned the Bell Tower Community Foundation \$32,028 based on this agreement. The loan is interest free and was originally scheduled to be paid back in full on May 1, 1998. However, during the fiscal year ended June 30, 1998, the City extended the loan until May 1, 2008. The balance of the loan on June 30, 2005 totaled \$32,028.

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(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) North Dallas County Landfill

An agency, the North Dallas County Landfill, has been established for the collection and disposal of solid waste. The Agency may not be accumulating sufficient financial resources, therefore, the City has an ongoing financial responsibility.

During the year ended June 30, 2005, the City of Jefferson paid the North Dallas County Landfill \$84,559 in user fees and \$13,878 in per capita fees. Complete financial statements for the Agency can be obtained from the North Dallas County Landfill Agency.

(10) Lease

The City has entered into a lease agreement with Van Horn Partnership for approximately 133 acres of farmland at the City's airport. The lease expires February 29, 2006, and automatically renews upon expiration from year-to-year unless either party gives notice not to renew the lease. The City receives \$132.50/acre, with one-half of the payment due by March 1, and the other half due by November 1 of each year. During the fiscal year ended June 30, 2005, the City received a total of \$17,623 under the lease agreement. The City also leases hangars at the airport. The amounts received under the leases vary depending on the size of the space rented out. Total rent collected during the year ended June 30, 2005 on the leases was \$19,764.

(11) Health Insurance

The City's health insurance plan includes a deductible of \$500 for single coverage and \$1,000 for family coverage. The City pays the first \$200 for individuals with single coverage and the first \$400 for individuals with family coverage. They city also pays up to a maximum of \$500 per employee per year for in-patient hospitalization.

(12) Note Receivable

During the year ended June 30, 1999, the City loaned \$100,677 to Tri-County Cash Lumber Mart, Inc. to assist them with the financing of water and sewer line improvements in connection with their development project. The note term began on October 28, 1998 and matures on November 1, 2008. Interest accrues at the rate of five percent per annum and is paid annually on or before November 1 of each year beginning on November 1, 1999. The entire principal balance and remaining accrued interest shall be paid in full on November 1, 2008. The remaining balance on the note was \$37,754 at June 30, 2005.

(13) Economic Development

On February 18, 1999, the City entered into a Community Economic Betterment Agreement (CEBA) with Iowa Department of Economic Development (IDED) and Parker Industries, Inc. The IDED provided a \$100,000 loan at zero percent interest payable in sixty monthly installments and a \$200,000 forgivable loan payable only if certain employment criteria are not met. The City of Jefferson's liability for the repayment of the note is limited to amounts collected through its good faith enforcement of the security interest obtained by the City.

During the fiscal year ended June 30, 2004, the City entered into a development agreement with West Central Coop in which the City agreed to pay \$660,000 in tax increment payments.

(14) Deficit Fund Balance

The City had deficit balances in the following funds at June 30, 2005:

Capital Projects Funds:

Sewer Force Main	\$10,149
Airport Improvements	176,751
Harrison Street Sewer Main	35,832

The deficits in the projects will be eliminated by receipt of transfers in the next fiscal year.

(15) Construction Commitments

The City has entered into various construction contracts totaling approximately \$4,906,411. The unpaid contract balances as of June 30, 2005 totaled approximately \$612,439 which will be paid as work on the projects progresses.

(16) Related Party Transactions

The City had business transactions between the City and City officials totaling \$17,938 during the year ended June 30, 2005.

Required Supplementary Information

City of Jefferson  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Discretely Presented Component Unit Included in the Budget
<b>Receipts:</b>			
Property tax	\$ 1,535,837	-	-
Tax increment financing collections	206,592	-	-
Other city tax	55,725	-	-
Licenses and permits	18,303	-	-
Use of money and property	14,096	16,737	44,055
Intergovernmental	915,590	-	-
Charges for service	457,735	1,638,750	-
Miscellaneous	107,909	41,559	12,711
Total receipts	3,311,787	1,697,046	56,766
<b>Disbursements:</b>			
Public safety	489,929	-	-
Public works	440,591	-	35,548
Health and Social Services	8,492	-	-
Culture and recreation	803,456	-	-
Community and economic development	410,310	-	-
General government	391,135	-	-
Debt service	1,700,641	-	-
Capital projects	2,344,771	-	-
Business type activities	-	1,598,335	-
Total disbursements	6,589,325	1,598,335	35,548
Excess (deficiency) of receipts over (under) disbursements	(3,277,538)	98,711	21,218
Other financing sources, net	2,681,233	(455,000)	(12,500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(596,305)	(356,289)	8,718
Balances beginning of year	3,246,698	1,870,056	24,799
Balances end of year	\$ 2,650,393	1,513,767	33,517

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,535,837	1,497,032	1,497,032	38,805
206,592	181,500	187,500	19,092
55,725	90,001	90,001	(34,276)
18,303	13,750	19,050	(747)
74,888	76,210	76,210	(1,322)
915,590	1,576,154	1,916,175	(1,000,585)
2,096,485	2,030,150	2,030,150	66,335
162,179	95,650	121,750	40,429
<u>5,065,599</u>	<u>5,560,447</u>	<u>5,937,868</u>	<u>(872,269)</u>
489,929	465,469	495,969	6,040
476,139	483,223	483,223	7,084
8,492	7,500	10,000	1,508
803,456	804,029	832,329	28,873
410,310	260,194	618,872	208,562
391,135	375,618	375,618	(15,517)
1,700,641	412,883	1,524,833	(175,808)
2,344,771	2,559,733	2,599,733	254,962
1,598,335	1,432,825	1,745,040	146,705
<u>8,223,208</u>	<u>6,801,474</u>	<u>8,685,617</u>	<u>462,409</u>
(3,157,609)	(1,241,027)	(2,747,749)	(409,860)
<u>2,213,733</u>	-	<u>2,165,015</u>	<u>48,718</u>
(943,876)	(1,241,027)	(582,734)	(361,142)
<u>5,141,553</u>	<u>5,299,557</u>	<u>5,299,557</u>	<u>(158,004)</u>
<u>4,197,677</u>	<u>4,058,530</u>	<u>4,716,823</u>	<u>(519,146)</u>

City of Jefferson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Proprietary Funds and the Component Unit. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$377,421 and \$1,884,143 respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service and general government functions.

## Other Supplementary Information

City of Jefferson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Recycling	Police Federal Forfeiture	Fareway Urban Renewal Tax Increment	Enrich Iowa	Special Unemployment Compensation
<b>Receipts:</b>					
Property taxes	\$ -	-	-	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	-	349	-	3,517	-
Charges for service	117,287	-	-	-	-
Miscellaneous	-	-	-	-	16,500
<b>Total receipts</b>	<b>117,287</b>	<b>349</b>	<b>-</b>	<b>3,517</b>	<b>16,500</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	-	1,122	-	-	-
Public works	85,971	-	-	-	-
Culture and recreation	-	-	-	2,528	-
Community and economic development	-	-	2,516	-	-
Health and social services	-	-	-	-	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Business type activities	-	-	-	-	-
<b>Total disbursements</b>	<b>85,971</b>	<b>1,122</b>	<b>2,516</b>	<b>2,528</b>	<b>-</b>
Excess (deficiency) of receipts over (under) disbursements	31,316	(773)	(2,516)	989	16,500
Operating transfers in(out)	(47,500)	-	88,619	-	-
Net change in cash balances	(16,184)	(773)	86,103	989	16,500
Cash balances beginning of year	96,764	2,052	(86,103)	424	8,080
Cash balances end of year	\$ 80,580	1,279	-	1,413	24,580
<b>Cash Basis Fund Balances</b>					
<b>Unreserved:</b>					
Special revenue funds	\$ 80,580	1,279	-	1,413	24,580
Capital projects funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 80,580</b>	<b>1,279</b>	<b>-</b>	<b>1,413</b>	<b>24,580</b>

See accompanying independent auditors' report.

Revenue								
LEC Capital Improvement	Skate Park	Library	Cemetery Mahaney Mausoleum	Industrial Development Emergency Draw	Cemetery Land Reserve	Community Center	Payroll Clearing	
-	-	-	-	-	-	-	-	-
-	-	-	96	308	39	10	-	-
123	-	297	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	15,975	-	-	-	-	-	-
123	-	16,272	96	308	39	10	-	-
23,610	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	8,458	85	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
23,610	-	8,458	85	-	-	-	-	-
(23,487)	-	7,814	11	308	39	10	-	-
-	-	-	-	-	8,000	-	-	-
(23,487)	-	7,814	11	308	8,039	10	-	-
42,144	1,525	29,708	10,096	31,396	46,081	5,686	9,697	-
18,657	1,525	37,522	10,107	31,704	54,120	5,696	9,697	-
18,657	1,525	37,522	10,107	31,704	54,120	5,696	9,697	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
18,657	1,525	37,522	10,107	31,704	54,120	5,696	9,697	-

City of Jefferson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue						CDBG
	Equipment Replacement	Health Insurance Sinking Fund	Downtown Streetscape	Downpayment Assistance	Cafeteria Plan	Self Insurance and Employee Benefits	
Receipts:							
Property taxes	\$ -	-	-	-	-	-	-
Use of money and property	137	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	297,072
Charges for service	-	-	-	-	-	-	-
Miscellaneous	-	-	12,575	-	-	-	-
Total receipts	137	-	12,575	-	-	-	297,072
Disbursements:							
Operating:							
Public safety	-	-	-	-	-	-	-
Public works	-	-	18	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Community and economic development	-	-	-	6,000	-	-	297,072
Health and social services	-	3,141	-	-	5,351	-	-
General government	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Business type activities	-	-	-	-	-	-	-
Total disbursements	-	3,141	18	6,000	5,351	-	297,072
Excess (deficiency) of receipts over (under) disbursements	137	(3,141)	12,557	(6,000)	(5,351)	-	-
Operating transfers in (out)	(103,355)	3,500		6,000	5,100	-	
Net change in cash balances	(103,218)	359	12,557	-	(251)	-	-
Cash balances beginning of year	206,041	100	-	-	956	45,090	-
Cash balances end of year	\$ 102,823	459	12,557	-	705	45,090	-
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ 102,823	459	12,557	-	705	45,090	-
Capital projects funds	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 102,823	459	12,557	-	705	45,090	-

See accompanying independent auditors' report

Capital Projects									Permanent	
Sewer Force Main	Drainage District #89	RACI Grant	Airport Improvements	Drainage District #97	Drainage District #57	Water System Improvements	Harrison Street Sewer Main	Cemetery Perpetual Care	Total	
-	-	-	-	-	9,554	-	-	-	9,554	
-	-	-	-	-	-	-	-	-	590	
-	-	-	21,945	-	-	-	-	-	323,303	
-	-	-	-	-	-	-	-	-	117,287	
-	-	-	104	-	-	-	829	7,000	52,983	
-	-	-	22,049	-	9,554	-	829	7,000	503,717	
-	-	-	-	-	-	-	-	-	24,732	
-	-	-	-	-	-	-	-	-	85,989	
-	-	-	-	-	-	-	-	-	11,071	
-	-	-	-	-	-	-	-	-	305,588	
-	-	-	-	-	-	-	-	-	8,492	
-	-	-	-	-	-	-	-	-	-	
20	-	-	188,721	-	2,906	-	-	-	191,647	
-	-	-	-	-	-	-	-	-	-	
20	-	-	188,721	-	2,906	-	-	-	627,519	
(20)	-	-	(166,672)	-	6,648	-	829	7,000	(123,802)	
-	-	-	12,500	-	-	3,000	-	-	(24,136)	
(20)	-	-	(154,172)	-	6,648	3,000	829	7,000	(147,938)	
(10,129)	265	-	(22,579)	23,490	693	-	(36,661)	154,113	558,929	
(10,149)	265	-	(176,751)	23,490	7,341	3,000	(35,832)	161,113	410,991	
-	-	-	-	-	-	-	-	-	438,514	
(10,149)	265	-	(176,751)	23,490	7,341	3,000	(35,832)	-	(188,636)	
-	-	-	-	-	-	-	-	161,113	161,113	
(10,149)	265	-	(176,751)	23,490	7,341	3,000	(35,832)	161,113	410,991	

City of Jefferson  
 Schedule of Indebtedness  
 Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose bond	Sep 1, 1995	4.12-5.50%	\$ 1,720,000
Essential corporate purpose bond	Mar 1, 1997	3.80-4.60%	1,300,000
Corporate purpose bonds	Sep 1, 2003	2.95-3.70%	1,875,000
Corporate purpose bonds	May 26, 2005	3.30-3.50%	1,120,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds			
	Jun 1, 1999	3.25%	\$ 1,275,000
Revenue notes:			
Water	Mar 1, 2003	2.00-3.70%	\$ 1,820,000
State revolving loan:			
2003 Sewer revenue bonds	Jun 10, 2003	3.00%	\$ 4,951,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
925,000	-	925,000	-	48,490	-
460,000	-	460,000	-	21,010	-
1,875,000	-	-	1,875,000	63,383	-
-	1,120,000	-	1,120,000	-	-
3,260,000	1,120,000	1,385,000	2,995,000	132,883	-
621,361	-	162,494	458,867	18,900	-
1,645,000	-	185,000	1,460,000	50,260	-
3,497,272	1,091,728	184,000	4,405,000	96,873	-

City of Jefferson  
Bond and Note Maturities  
June 30, 2005

General Obligation Notes					
Year Ending June 30,	Corporate Purpose Issued Sep 2003		Corporate Purpose Issued May 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	-	\$ -	3.50%	\$ 305,000	\$ 305,000
2007	-	-	3.50	315,000	315,000
2008	2.95%	95,000	3.50	165,000	260,000
2009	2.95	100,000	3.30	165,000	265,000
2010	2.95	100,000	3.40	170,000	270,000
2011	3.15	290,000		-	290,000
2012	3.35	305,000		-	305,000
2013	3.45	315,000		-	315,000
2014	3.60	330,000		-	330,000
2015	3.70	340,000		-	340,000
Total		<u>\$ 1,875,000</u>		<u>\$ 1,120,000</u>	<u>2,995,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds 1999 Series Issued Jun 1, 1999		State Revolving Loan 2003 Sewer Revenue Bonds Issued Jun 10, 2003		Revenue Notes Water Issued Mar 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2006	3.25%	\$ 167,818	3.00%	\$ 175,000	2.25%	\$ 190,000
2007	3.25	173,317	3.00	181,000	2.70	195,000
2008	3.25	117,732	3.00	186,000	3.10	200,000
2009		-	3.00	192,000	3.30	205,000
2010		-	3.00	197,000	3.30	215,000
2011		-	3.00	203,000	3.55	225,000
2012		-	3.00	210,000	3.70	230,000
2013		-	3.00	216,000		-
2014		-	3.00	222,000		-
2015		-	3.00	229,000		-
2016		-	3.00	236,000		-
2017		-	3.00	243,000		-
2018		-	3.00	250,000		-
2019		-	3.00	258,000		-
2020		-	3.00	265,000		-
2021		-	3.00	273,000		-
2022		-	3.00	282,000		-
2023		-	3.00	290,000		-
2024		-	3.00	299,000		-
Total		<u>\$ 458,867</u>		<u>\$ 4,407,000</u> *		<u>\$ 1,460,000</u>

\* Amount is based up on entire loan being borrowed at fiscal year end.

Only \$4,405,000 was actually outstanding as of June 30, 2005.

See accompanying independent auditors' report.

## City of Jefferson

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

June 30, 2005

	<u>2005</u>	<u>2004</u>
Receipts:		
Property tax	\$ 1,535,837	\$ 1,413,435
Tax increment financing collections	206,592	184,977
Other city tax	55,725	57,917
Licenses and permits	18,303	14,600
Use of money and property	14,096	12,225
Intergovernmental	915,590	606,722
Charges for service	457,735	316,278
Miscellaneous	107,909	115,591
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 3,311,787</u>	<u>\$ 2,721,745</u>
Disbursements:		
Operating:		
Public safety	\$ 489,929	\$ 556,413
Public works	440,591	423,836
Culture and recreation	803,456	778,352
Community and economic development	410,310	154,769
Health and social services	8,492	-
General government	391,135	369,158
Debt service	1,700,641	577,531
Capital projects	2,344,771	4,102,904
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 6,589,325</u>	<u>\$ 6,962,963</u>

See accompanying independent auditor's report.

City of Jefferson  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for State Revolving Funds	66.458	CS192219 01	\$ 911,630
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/ State's Program	14.228	04-CF-022-03	297,072
U.S. Department of Homeland Security:			
Federal Emergency Management Agency	97.044	EMW-2004-FG-05839	46,980
U.S. Department of Homeland Security:			
	83.554	EMW-2003-FG-18288	134,550
U.S. Department of Transportation:			
	20.106	AIP 3-19-0049-03	<u>120,136</u>
Total			<u>\$ 1,510,368</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Jefferson and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

City of Jefferson

# CLINE, DEVRIES & ALLEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report on  
Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Jefferson, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 5, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Jefferson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Jefferson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jefferson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Jefferson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 5, 2005  
Ames, Iowa

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over Compliance

City of Jefferson

# CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
In Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Jefferson, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The City of Jefferson's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Jefferson's management. Our responsibility is to express an opinion on the City of Jefferson's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jefferson's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Jefferson's compliance with those requirements.

In our opinion, the City of Jefferson complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-05 in the accompanying Schedule of Findings.

Internal Control Over Compliance

The management of the City of Jefferson is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Jefferson's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Jefferson's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

August 5, 2005  
Ames, Iowa

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City of Jefferson

Schedule of Findings

Year ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Capitalization Grants for State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Jefferson did not qualify as a low-risk auditee.

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City of Jefferson  
Schedule of Findings

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-05 Delinquent Utility Accounts – The City does not have formal, written policies and procedures for handling delinquent utility accounts.

Recommendation – The City should establish written policies and procedures for dealing with utility customers with delinquent account balances.

Response – We will do so.

Conclusion – Response accepted.

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City of Jefferson  
Schedule of Findings

Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

None.

REPORTABLE CONDITION:

CFDA Number 66.458: Capitalization Grants for State Revolving Funds  
Pass-through Agency Number: CS192219 01  
Federal Award Year: 2004  
Environmental Protection Agency  
Passed through the Iowa Department of Natural Resources

- III-A-05 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-05.

City of Jefferson  
Schedule of Findings

Year ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the debt service and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended once, it should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do so in the future.

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Bunkers, Council Member, owner of Bunker's Dunkers	Food	\$401
Karen Pound, Employee, spouse of owner of Jefferson Auto	Services	1,735
Tom Danielson, Fire Dept. Employee, Owner of A-1 Service Center	Services	866
Larry Teeples, brother of employee and son of Council Member, owner of Teeples Heating and Cooling	Services	9,251



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City of Jefferson

Schedule of Findings

Year ended June 30, 2005

Response – Water rates were increased effective January of 2006 and the City is currently in the process of increasing the sewer rates as well.

Conclusion – Response accepted.

IV-J-05 IRS Forms 1099 –The City did not file 1099's for all individuals/businesses that were required to receive them.

Recommendation – The City should file the required 1099s and in the future, they should ensure that all applicable forms are filed timely.

Response – We have filed the required 1099s.

Conclusion – Response accepted.

IV-K-05 Outstanding Checks – Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The City did not do this.

Recommendation – The City should comply with Chapter 556.11 of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

IV-L-05 Financial Condition – The City had the following deficit balances at June 30, 2005:

Capital Projects Funds:

Harrison Street Sewer Main	35,832
Sewer Force Main	10,149
Airport Improvements	176,751

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response –The deficits will be eliminated.

Conclusion – Response accepted.

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Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
III-A-05	Segregation of Duties over Federal Revenues.	The corrective action plan was documented in our response to the auditors' comment. See Schedule of Findings.	Diane Kennedy City Clerk (515) 386-3111	N/A